The Changing Role of the CIO: Why IT Still Matters

In May 2003, Nicolas Carr argued that information technologies have become a commodity rather than a source of competitive advantage (“IT Doesn’t Matter,” Harvard Business Rev., May 2003). He also suggested that companies would be well served to manage IT using strategies of minimum cost and carefully managed risk.

Carr set off a firestorm. Some pundits cited the article as capturing the spirit of a contemporary backlash, which, they say, has resulted in diminished mandate and budgets for IT. Others rebuked Carr, claiming that IT-enabled transformational and business innovation opportunities are increasing and within reach given only the necessary increase in will and resources. In the fallout of Carr’s article, some intrepid CIOs are skillfully navigating the maelstrom and winning more responsibility and influence. Other CIOs are embattled, trying to save their budgets and their seat at the executive table.

WHERE THE TRUTH LIES

Just for a minute, blindly assume that Carr’s thesis is valid, and consider the CIO role along three specific dimensions:

- types and scope of responsibilities,
- place in the organizational chart, and
- inherent risks—how bad is it if a CIO fails?

If the thesis is valid, CIOs should have narrowly defined responsibilities of limited scope. Their place in the org chart should be sinking. And there should be a trend toward increasingly less risk to the organization if the CIO fails. When examined along these dimensions, the CIO role, as described by our colleagues at the CIO Institute’s community of practice, offers little to support Carr’s contentions.

RESPONSIBILITIES: VARIED AND WIDE RANGING

In terms of responsibilities, it seems as if the CIO role is, if anything, is becoming more varied and of a wider scope. Whether the title is CIO, chief technology officer (CTO), director of information systems, or vice president of “anything technical,” the job is vital and difficult. (Throughout this article, we use “CIO” to mean anyone with the duties of a CIO-like executive, regardless of title.)

CIOs deal with sophisticated technical issues, such as rapidly changing software packages, platforms, and standards. They face the challenge of leading and earning the respect of a diverse technical staff. They oversee the operations of systems on which business, revenues, and profits depend and, in some cases, are impossible to achieve without. Such executives must manage relationships with other executives, internal customers, company directors, and other stakeholders. As researchers James Cash and Keri Pearlson...

Consider, for example, a CIO operating at the corporate level in a large multinational corporation, whose main responsibility is to oversee the budget, standards compliance, and coordinate the activities of her direct reports. Compare that to the functional CIO of a small $50 million per year food products company, a person who might even have to go hands-on when a major system crashes. The duties of these CIOs differ from those of a CIO for the consumer products division of a major electronics company, or from those of the CIO responsible for an automotive manufacturer’s Asia-Pacific region. The duties differ still from the CIO of a 100 person consulting firm.

Despite these variations, Cash and Pearlson identified five primary CIO roles, as shown in Figure 1: business strategist, IT strategist, change agent, technology advocate, and functional leader. Each role has its challenges; it’s pretty hard to argue that IT doesn’t matter when you consider these varied roles.

**CIO as business strategist**

According to Donald Tapscott, perhaps Carr’s most vocal critic, the CIO’s role is to find the best practices of the business. In a global economy, however, the differences in best business practices are shrinking (“The Engine That Drives Success,” Don Tapscott, *CIO*, 1 May 2004). The challenge for the CIO, then, is to find these best business practices while at the same time finding increased benefits or continued cost reductions—or preferable, all three. And the improvements have to be implemented quickly, before the inevitable competitive pressures degrade the advantage into mediocrity and the commodity status that Carr observes.

One approach to business strategy optimization is to plan initiatives that help shape business processes, not simply automate existing processes, especially if the processes are not working. One of our community’s CIOs puts it this way: “We don’t put up new business processes without some automation from the outset. Competency to design for automation is something we require throughout our IT organization. We then deploy these competencies into other business and operating units.”

Because of the need for the CIO to be deeply involved in business process reengineering, some companies combine the CIO role with other executive-level positions rich with process ownership, creating hybrid positions with titles like “chief administrative officer.”

**CIO as IT strategist**

In this role, the CIO acts as chief technology evangelist for the organization. In particular, the CIO must provide the answer to fundamental questions and then sell the solution’s viability. Key IT strategic questions include the following: Which standard platform should we use? Do we use open source software or not? Do we build or buy? Do we use a single, integrated solution and risk vendor lock-in, or do we take a heterogeneous approach and risk creating a stovepipe architecture?

The CIO can be involved in major shareholder initiatives and certainly negotiations for IT vendor contract. An often unavoidable side effect of these dealings is shareholder or contract disputes. Because legal and shareholder issues can significantly drain corporate resources, managing the incumbent risks are a major part of the CIO’s strategic dashboard. No CIO wants to find himself on a witness stand in court.

**CIO as change agent**

In providing IT support for any aspect of an organization, the choices are to buy off-the-shelf solutions, build a software solution from scratch, or change the organization to eliminate the need for new IT resources. But most organizations resist change. It is here, in particular, where the CIO can act as a change agent by demonstrating the cost-benefit analysis of the build, buy, or change decision.

No company would think about rolling out a new initiative without including IT from the beginning. Therefore, the CIO has a great deal of opportunity to influence change in areas apart from those that are directly IT related. Consider this reported success story from one CEO: “We were trying to deploy standards in our systems and support processes—trying to harmonize our infrastructure. Now we really do have just one e-mail system,
one desktop, more use of enterprise applications, and fewer one-offs. Our CIO has done a good job of showing us how.”

**CIO as technology advocate**

A CIO also has to help the organization intelligently deploy technology. This might involve acting as an evangelist for a new platform, product, or standard. It might involve setting up a skills training program to help the organization retool. Or, it might be simply attracting and retaining top-notch technical talent.

Many might believe that CIOs only think about putting in big systems and supporting them. But IT organizations also have to provide desktop support and help desk services. And depending on the size of the company, the CIO might be closely involved in these activities, too.

The notion that the CIO has to be a great technologist is, however, a myth. The CIO must be an excellent leader and have some technical prowess, for sure. But it is naïve to think that he must be as technically competent as each and every person in the IT organization. Often, CIOs are criticized (sometimes fairly, sometimes unfairly) by those at lower levels of the IT organization for being less than adequate, technically speaking. But frankly, people, financial, and organizational skills are far more valuable to the CIO than any type of technical proficiency.

**CIO as functional leader**

CIOs are, after all, managers. They have to hire, evaluate, promote, and fire staff. They have to motivate their organizations and defend the actions of individual staff members. CIOs are also project planners and resource managers, and remain the first target for blame when projects run behind schedule or over budget (but they don’t always receive credit when projects meet schedule and budget). Saying “no” to rogue initiatives, and identifying and removing underground processes is also an important role of a functional leader.

Many excellent functional leaders use the “management by walking around” principle. Here, the CIO is fully aware of what is going on within the business process chain by regular interaction with all levels of staff (rather than hiding in a mahogany-paneled office). Consider this sentiment from one of our CIOs: “The achievement of benefits is as important as ever—and as rare as ever. Given the need for continued cost reductions, we are still focused on process improvement and associated head count reductions. Skills in how to do this are ever important. Our IT organization has to engage with our process owners to get this done. We have been hurt by turnover since our big initiatives prior to year 2000. And of course, the consultants are gone. But the office of the CIO and the IT organization are the places where we expect to retain and redeploy that knowledge.”

**SINKING IN THE ORG CHART?**

The late 1990s saw an increase in the number of CIOs directly reporting to the CEO. Has that trend reversed?

Perhaps; in an annual survey conducted by *CIO Magazine*, it seems that the CIO is reporting to the CEO less often. In fact, as Figure 2 shows, from a high of 51 percent in 2002, only 40 percent of CIOs now report directly to CEOs, according to the survey (“State of the CIO 2003,” *CIO*, 26 Mar. 2003, http://www2.cio.com/research/surveyreport.cfm?id=54; and “State of the CIO 2002,” *CIO*, 1 Mar. 2002, http://www.cio.com/archive/030102/survey_results.html). So it would—at least at face value—seem as if this fact supports Carr’s thesis.

But the trend in the reporting structure might also be a function of company size. For example, in another survey, CIOs of small companies (less than $1 billion in revenue) reported to the CEO 55 percent of the time, but in large companies they did so only 41 percent of the time. In yet a different survey, the CIO reported to the CEO 60 percent of the time in very large companies—those greater than $5 billion revenues (“CFO Research,” *CFO-IT*, Summer 2004, p. 11). Thus, the reduction in CIOs reporting to CEOs might have something to do with industry consolidation or the shakeout of smaller companies after the dot-com bust.

What do CIOs think about who they should report to? Our community of practice expressed three different views:

- CIOs should report to the CEO,
- CIOs should report to someone other than the CEO, typically the chief financial officer (CFO) or chief operating officer (COO), or
- it didn’t matter to whom the CIO reports.

Those that said the CIO should report to the CEO seem focused on equalizing the CIO’s responsibilities with the level of authority needed to fulfill those responsibilities.

![Figure 2. Percentage of CIOs reporting to CEOs.](image-url)
That is, if the CIO is providing sufficient value, then the CIO should report to the CEO. This is an advantage to the IT organization because the ability to influence strategic IT direction is greater if the CIO reports to the CEO.

Others based their case on financial accountability to shareholders, so thought the CIO should report to someone other than the CEO. Consider this comment from one CIO: “Accounting scandals and the subsequent Sarbanes-Oxley legislation tell us that for the CIO to be at the C-level, it is all about risk and trust. It is not that we have decreased the role of the CIO. Rather, we count on the CFO to protect our corporation. It just seems natural, now more than ever, for our IT function to report through the CFO.”

The case for “it doesn’t matter” who the CIO reports to is simple: An org chart isn’t as important as the chemistry between the CIO and his boss. Most CIOs would rather not report to the CEO if they don’t have a good relationship.

Now consider what role the CIO should play in corporate governance and how to reconcile this role with other day-to-day activities. Some corporate board members believe that the CIO should report in dotted-line fashion to an IT subcommittee of the board of directors, in addition to a direct reporting line to the CEO or CFO. This situation is similar to a CFO also reporting to a board’s audit committee. Indeed, some CIOs have engineered such a governance body to help ensure alignment between corporate strategy and IT investment decisions. There needs to be an approval process for most large IT projects, anyway, and the ability to pitch a proposal directly to the board can be critical in gaining support for IT initiatives. Having more interaction with the board also increases the CIO’s overall influence and stature.

But many CIOs view that situation as undesirable because of the potential for a committee to micromanage IT activities and budget. Our community’s CIOs believe that boards have the duty to weigh in on strategic decisions and should leave the professionals to manage the details without undue interference. In other words, they don’t want a committee making decisions around them.

So whether the CIO reports to the CEO (or not) is probably not critical to a business’ success. But that doesn’t mean that “IT doesn’t matter.” A director of security probably doesn’t report to the CEO, either. But both security and IT matter. The real question is Does IT matter enough to be on the CEO’s dashboard?

**RISKY (IT) BUSINESS**

The position of CIO is inherently risky because the stakes are high, budgets are substantial, and stakeholder tolerance for failure is low. Furthermore, many CIOs face additional risks because their systems produce data used for public reporting and compliance. Such reporting is subject to regulations and oversight by international, federal, state, and local agencies. CIOs in the financial, pharmaceutical, and medical industries, for example, must deal with the US Securities and Exchange Commission, the US Federal Communications Commission, the Federal Reserve Bank, and other industry-specific regulatory agencies. Each of these agencies has arduous reporting requirements, paperwork, and audits. More importantly, each has the ability to hold rule breakers accountable. Every time you modify an IT system or bring a new one online, CIOs must consider the risks of compromising any regulatory compliance or reporting to one of these watchdog agencies. Failures in these areas can cost a company dearly.

Another risk for CIOs arises from the need to establish trust with stakeholders. If CIOs, for example, pad schedules and budgets to avoid overruns, such behavior can eventually come to light. Overly aggressive or optimistic predictions, however, can cause costly overruns. Either way, CIOs lose credibility. And consider this trust breaker: The year 2000 problem caused the expenditure of huge amounts of money to avoid business disruption. Yet, because there were no cataclysms, many have, in retrospect, criticized the huge expenditures and prophecies of doom. Some have used this sequence of events as an excuse to diminish IT’s strategic importance. Some would say that this is proof of Carr’s thesis: That is, even if Y2K efforts had failed, companies faced few significant consequences.

Other stories, however, highlight the risk companies continue to face in large IT projects. Here’s what one senior IT executive of a major corporation thinks: “I feel sorry for our CIO. You know, we never did learn how to properly specify our needs and requirements for IT. Even when the development group was sitting down the hall, we couldn’t really get it right. Along comes this offer to do development for $18/hour in India—$100 less than our internal rate. You know, we never did learn how to properly specify our needs and requirements for IT. Even when the development group was sitting down the hall, we couldn’t really get it right. Along comes this offer to do development for $18/hour in India—$100 less than our internal rate. So of course the executives pressure the CIO to take the offer and give back budget; poor soul did. Now, he has to go to India regularly and—no way of hiding it—our gap in specifications skills is going to come out. I have dibs on his chair before they clean out his office.”

With the increase in expectations has the career risk for the typical CIO increased? Is there a shortage of people who want to become CIO? Perhaps not; consider this comment from one CIO: “For me, career risk is diminished. We have a need to execute better, faster, cheaper; and I am the biggest,
most consistent contributor in this regard. We now have better alignment with our business units and our IT functions. In fact, it is truly embedded in all that we do.” And another IT executive of a different company notes, “Technology is here to stay. We would never start a new undertaking without it. IT threats to our company have increased. In our company, the CIO is leading our defense.” These CIOs think it is self-evident that the risk level in the CIO position is high, precisely because the IT function is so important.

The implication of Carr’s article for CIOs is spend less, do not lead, manage risk. If this becomes a mantra, a period of IT malaise will ensue with CIOs going “underground” in the corporation. There will be less fuel, less spark—less chance for an idea to combust into a growth-driving innovation that drives our companies, our economy, and puts some fun back into the profession. And the reverberations through the economic system might be felt for many years. Our community of practice thinks that we have made the case that IT does matter, but it is up to the CIO to remain in the foreground of corporate relevance.

Our appeal to CIOs, then, is this: Set aside some budget, and bring your zeal to bear on carefully nurturing whatever opportunity your environment can muster—make something happen!

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